

The Board of Directors is pleased to present the annual report of Sindh Microfinance Bank Limited (SMFB) along with its audited financial statements and auditors' report for the year ended December 31, 2016.

Economic Highlights

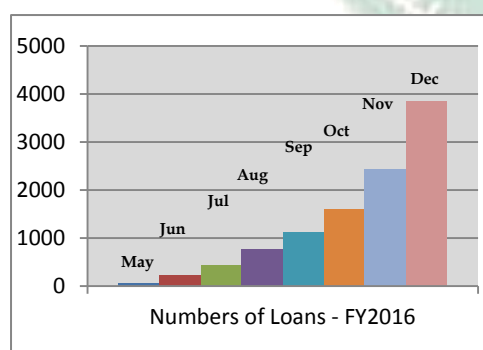
The year 2016 was an eventful year in terms of developments on the macroeconomic front with some commendable achievements within the country; enabling it to maintain its growth momentum consecutively for the fourth year in a row.

Going forward, China Pakistan Economic Corridor (CPEC) seems to be a game changer for the economy providing sustainable growth by addressing infrastructure and energy related issues. Specifically, the microfinance sector is showing a positive growth trend. The National Financial Inclusion Strategy (NFIS) steered by government and initiatives for financial inclusion, poverty alleviation and women empowerment introduced by the State Bank of Pakistan have resulted in considerable growth in access to financial services for population segments especially from unbanked rural areas like never before.

Bank Operating Results and Financial Review

Sindh Microfinance Bank Limited (the Bank), a wholly owned subsidiary of Sindh Bank Limited obtained Province-wide Microfinance Banking License from State Bank of Pakistan (SBP) on October 16, 2015 to operate in the province of Sindh. On April 15, 2016, the Bank received Certificate of Commencement of Microfinance Banking Business from SBP, to open five (5) Branches and nineteen (19) Service Centres during the year 2016. The Bank's registered office is situated at 39/F 2nd Floor, M.A.C.H.S Karachi.

Despite a challenging environment owing to its infancy, the Bank has registered a reasonably good growth in its loan portfolio which as of December 31, 2016 stood at 3,837 women borrowers.



Operating Results	Dec 31, 2016	Dec 31, 2015
Net mark-up / return / interest income after provisions	60.11 M	38.50M
Non mark-up / non-interest income	60.13M	38.50M
Admin Expenses	(39.39M)	(15.10M)
Profit before taxation	20.74M	23.40M
Taxation charge	(8.28M)	(8.19M)
Profit after taxation	12.46M	15.21M
Earnings per share - PKR	0.17	0.20

The bank has been able to build up its branch network from scratch to five (5) branches and nineteen (19) Service Centres in accordance with the approved Annual branch Expansion Plan – 2016 during its first year of operation and is committed to provide microfinance banking facilities across Sindh. It is no less feat that Sindh Microfinance Bank has paid taxes of more than Rs.15M into national exchequer. It has infused additional equity of more than Rs.30M in its initial capital. More than 100 new jobs have been created by it up till now. As of date, the bank has financially empowered more than 3837 households through their womenfolk. With equity of just Rs.750M the bank has been able to act as a catalyst of social change and women empowerment and this is just the beginning.

As on December 31, 2016, Rs. 78.715M were disbursed amongst women clients exclusively through SMFB flagship 'Sujag Aurat' solidarity loan product. The average loan size stands at Rs. 20,514/- which is repayable in a yearly cycle.

Since being in the first year of its operations and to remain in line with market dynamics, the Bank opted for sustainable growth in its lending operations. Expenses were incurred for structural development such as core banking software, IT infrastructure development, establishment of bank network and human resource acquisition.

Total employee strength of the Bank as on December 31, 2016 stands at 94 out of which 45 staff has been hired during last quarter (Oct-Dec), most of these new inductees are field related staff. At the start of the 4th quarter, Bank had a network of two (2) Branches and ten (10) Service Centres at Karachi and Sujawal. Three (3) more branches at Mithi, Kunri and Tando Allahyar and nine (9) new Service Centres have since become operational. As on December 31, 2016, total strength of the bank's network stands at five (5) branches and nineteen (19) Service Centres.

Corporate and Financial Reporting Framework

- The Board has complied with the relevant principles of corporate governance.
 - The financial statements, prepared by the management of Sindh Microfinance Bank Limited, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
 - Proper books of account of SMFB have been maintained;
 - Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
 - The Board recognizes its responsibility to establish and maintain sound system of internal control, which is regularly reviewed and monitored; and
 - The appointment of chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interests of the bank as well as in line with the best practices.
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Meetings of the Board

Four (4) Board meetings were held during the year under review. The Board granted leave of absence to the Directors who did not attend the meetings. The number of meetings held and attended by each director is:

Directors' Name	Status	Number of Meetings attended
Mr. Naim Farooqui	Chairman - Resigned	0
Mr. Shamsuddin Khan	Chairman - New Election	2
Mr. Jawed Iqbal	Non-Executive Director - Retired	1
Ms. Naila Masood	Independent Director - New Election	2
Mr. Liaquat Ali	Independent Director - Re-elected	4
Mr. Farooq Ahmed	Independent Director - Re-elected	4
Ms. Masooma Hussain	Non-Executive Director - Re-elected	2
Mr. Fazalillahi Memon	Non-Executive Director - Re-elected	4
Mr. Shoaib Arif	CEO / Executive Director - Re-elected	4

Auditors

The external auditors Messrs. Grant Thornton Anjum Rahman, Chartered Accountants, are retiring. The Board of Directors, in consonance with corporate governance requirements, shall appoint external auditors for the next year.

Events after the Balance Sheet Date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the enclosed financial statements.

Future Outlook

Macroeconomic environment looks positive due to lower inflation rates and reduction in unemployment. The Bank, with the support of its parent/sponsor, continues to pursue its strategic objectives of sustainable economic intervention for poverty alleviation and unemployment. While monitoring the prevailing economic conditions, the main focus of the Bank would be to: leverage on the building blocks put into place; steadily build up its earning assets; effectively manage the associated risks; and rationalize its cost of operations through continued improvement in its efficiency indicators. This would be facilitated by better customer service delivery. In order to enhance its footprint in CY 2017, the Bank has received requisite approval from State Bank of Pakistan and shall open five (5) new branches and twenty (20) Service Centres in rural and semi urban areas of Sindh such as Matli, Talhar, Tando Bago, Khoski, Shahdadpur, Daur and Sakrand.

Acknowledgment

We wish to express sincere gratitude to our customers, business partners and shareholders for their patronage and trust. The Board of Directors and the management would like to thank the State Bank of Pakistan and other regulatory bodies for their guidance and support. The Board sincerely appreciates the dedication, commitment and team work of all employees of the Bank who are striving very hard to transform it into a successful enterprise with noble aspirations.

On behalf of the Board of Directors,



Shoaib Arif
President and CEO
February 21, 2017
Karachi



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AUDITORS' REPORT TO THE MEMBERS

GRANT THORNTON ANJUM RAHMAN

1st & 3rd Floor,
Modern Motors House
Beaumont Road,
Karachi 75530

T +92 021 3567 2951-56

F +92 021 3568 8834

www.gtpak.com

We have audited the annexed balance sheet of **Sindh Microfinance Bank Limited** (the Bank) as at December 31, 2016 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in after referred to as the 'financial statements'), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

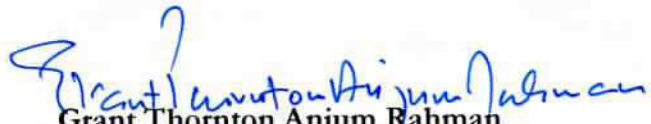
It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984, and the Microfinance Institutions Ordinance, 2001. Our responsibility is to express an opinion on these financial statements based on our audit.

We conduct our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 and the directives issued by the State Bank of Pakistan (SBP), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied therein;

- (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the directives issued by the SBP;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 and the Microfinance Institutions Ordinance, 2001 and the directives issued by the SBP in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2016 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Karachi
Date: March 07, 2017


Grant Thornton Anjum Rahman
Chartered Accountants
Muhammed Shaukat Naseeb
Engagement Partner



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Review Report to the Members On the Statement of Compliance with the Public Sector Companies (Corporate Governance) Rules, 2013

GRANT THORNTON ANJUM RAHMAN

1st & 3rd Floor,
Modern Motors House
Beaumont Road,
Karachi 75530

T +92 021 3567 2951-56
F +92 021 3568 8834
www.gtpak.com

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Public Sector Companies (Corporate Governance) Rules, 2013 (the Rules) prepared by the Board of Directors of Sindh Microfinance Bank Limited for the year ended December 31, 2016 to comply with the provisions of Public Sector Companies (Corporate Governance) Rules, 2013.

The responsibility for compliance with the Rules is that of the Board of Directors of the Sindh Microfinance Bank Limited. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Sindh Microfinance Bank Limited's compliance with the provisions of the Rules and report if it does not and to highlight any non-compliance with the requirements of the Rules. A review is limited primarily to inquiries of the Sindh Microfinance Bank Limited's personnel and review of various documents prepared by the Sindh Microfinance Bank Limited to comply with the Rules.

As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Sindh Microfinance Bank Limited's corporate governance procedures and risks.


The Rules requires the Sindh Microfinance Bank Limited to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Moreover, the rules of Public Sector Companies (Corporate Governance) Rules 2013, requires the Board to ensure compliance with the law as well as the Bank's internal rules and

procedures relating to procurement, tender verification, purchasing and technical standards when dealing with suppliers of goods and services in accordance with Sindh Public Procurement Regulatory Authority Rules. We hereby only performed our procedures to client's compliance with above mentioned rules on a test basis as a part of our audit of the financial statements of the Bank.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Sindh Microfinance Bank Limited's compliance, in all material respects, with the best practices contained in the Rules as applicable to the Sindh Microfinance Bank Limited for the year ended December 31, 2016 except for the non-compliance of clause 18 and 21 as explained in the enclosed statement of compliance.

Dated: March 07, 2017
Karachi


Grant Thornton Anjum Rahman
Chartered Accountants
Muhammad Shaukat Naseeb
Engagement Partner

Sindh Microfinance Bank Limited

Financial Statement

For the year ended December 31, 2016

SINDH MICROFINANCE BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2016

	Note	2016 -----Rupees-----	2015
ASSETS			
Cash and balances with SBP and NBP	7	1,949,600	10,022
Balances with other banks	8	580,005,055	355,843,727
Lending to financial institutions	9	100,000,000	400,000,000
Investment - net of provisions		-	-
Advances - net of provisions	10	68,657,071	-
Operating fixed assets	11	7,399,608	2,524,053
Other assets	12	22,680,807	8,182,149
Deferred tax asset-net		-	1,082,485
Total assets		780,692,141	767,642,436
LIABILITIES			
Deposits and other accounts	13	1,138,626	-
Borrowings		-	-
Subordinated debt		-	-
Other liabilities	14	1,472,269	2,429,615
Deferred tax liabilities-net	15	407,907	-
Total liabilities		3,018,802	2,429,615
NET ASSETS		777,673,339	765,212,821
REPRESENTED BY:			
Share capital	16	750,000,000	750,000,000
Statutory and General Reserves		5,534,666	3,042,562
Depositors' protection fund		1,383,667	760,641
Unappropriated profit		20,755,006	11,409,618
		777,673,339	765,212,821
Surplus/(deficit) on revaluation of assets		-	-
Deferred grants		-	-
TOTAL EQUITY		777,673,339	765,212,821
MEMORANDUM / OFF BALANCE SHEET ITEMS	17		

The annexed notes from 1 to 32 form an integral part of these financial statements.


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 President & Chief Executive



 Chairman



 Director




 Director

SINDH MICROFINANCE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		-----Rupees-----	
Mark-up / return / interest earned	18	60,809,161	38,501,984
Mark-up / return / interest expensed		-	-
Net mark-up / interest income		60,809,161	38,501,984
Provision against non-performing loans and advances		(693,506)	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(693,506)	-
Net mark-up / interest income after provisions		60,115,655	38,501,984
NON MARK-UP/ NON INTEREST INCOME			
Fee, commission and brokerage income		-	-
Dividend income		-	-
Other income		16,000	-
		16,000	-
Total non mark-up / non interest income		60,131,655	38,501,984
NON MARKUP/ NON INTEREST EXPENSE			
Administrative expenses	19	(39,390,336)	(15,097,644)
Other provisions/write offs		-	-
Other charges		-	-
Total non mark-up / non interest expenses		(39,390,336)	(15,097,644)
Extra ordinary / unusual items		-	-
Profit before taxation		20,741,319	23,404,340
Taxation			
- current	20	6,900,501	9,274,004
- prior		(48,946)	-
- deferred		1,429,246	(1,082,485)
		(8,280,801)	(8,191,519)
Profit after taxation		12,460,518	15,212,821
Unappropriated profit - brought forward		11,409,618	-
Profit available for appropriation		23,870,136	15,212,821
APPROPRIATIONS:			
Transfer to			
- statutory reserve		2,492,104	3,042,562
- capital reserve		-	-
- contribution to depositors' protection fund		623,026	760,641
- revenue reserve		-	-
- proposed dividend		-	-
Unappropriated profit - carried forward		20,755,006	11,409,618
EARNINGS PER SHARE	21	0.17	0.20

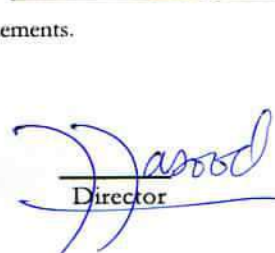
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 President & Chief Executive



 Chairman



 Director

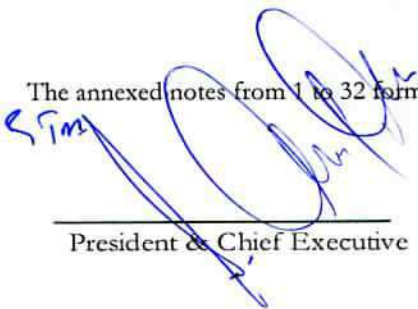



 Director

SINDH MICROFINANCE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016

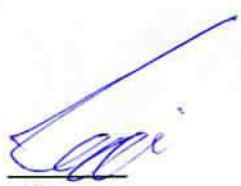
	Note	2016	2015
		-----Rupees-----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		20,741,319	23,404,340
Adjustments for non cash items:			
Depreciation	11.1	766,006	295,193
Amortization	11.2	313,672	-
Provision against non performing loans		693,506	-
Operating cash flows before changes in working capital		22,514,503	23,699,533
Working capital changes			
Advances	10	(69,350,577)	-
Increase in other assets		(9,976,413)	(8,182,149)
		(79,326,990)	(8,182,149)
Decrease in operating liabilities			
Decrease in other liabilities		777,505	694,763
Increase in deposits		1,138,626	-
		1,916,131	694,763
Cash generated from operations		(54,896,356)	16,212,147
Income tax paid		(13,047,505)	(7,539,152)
Net cash flows (used in) / from operating activities		(67,943,861)	8,672,995
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in certificate of investment		-	(50,000,000)
Net investments in letter of placement		400,000,000	(400,000,000)
Net investments in certificate of deposit		(100,000,000)	-
Disposal of certificate of investments		-	50,000,000
Purchase of operating fixed assets	11	(5,955,233)	(2,819,246)
Net cash flow (used in) / from investing activities		294,044,767	(402,819,246)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt from issue of share capital		-	750,000,000
Net cash generated from financing activities		-	750,000,000
Net increase in cash and cash equivalents		226,100,906	355,853,749
Cash and cash equivalents at the beginning of the year		355,853,749	-
Cash and cash equivalents at the end of the year	23	581,954,655	355,853,749

The annexed notes from 1 to 32 form an integral part of these financial statements.


 President & Chief Executive


 Chairman


 Director


 Director

SINDH MICROFINANCE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

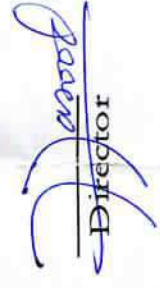
	Share capital	Reserve			Total
		Statutory reserve	Depositors' protection fund	Revenue Unappropriated profit	
-----Rupees-----					
Total comprehensive income for the period					
- Profit after taxation	-	-	-	15,212,821	15,212,821
- Other comprehensive income	-	-	-	15,212,821	15,212,821
Transfer to statutory reserve	-	3,042,562	-	(3,042,562)	-
Transfer to depositors' protection fund	-	-	-	-	-
- 5% of the profit after tax for the year	-	-	760,641	(760,641)	-
- return on investments - net of tax	-	-	-	-	-
Transaction with owner:					
Issue of share capital	750,000,000	-	-	-	750,000,000
Balance as at December 31, 2015	750,000,000	3,042,562	760,641	11,409,618	765,212,821
Total comprehensive income for the year					
- Profit after taxation	-	-	-	12,460,518	12,460,518
- Other comprehensive income	-	-	-	12,460,518	12,460,518
Transfer to statutory reserve	-	2,492,104	-	(2,492,104)	-
Transfer to depositors' protection fund	-	-	-	-	-
- 5% of the profit after tax for the year	-	-	623,026	(623,026)	-
- return on investments - net of tax	-	-	-	-	-
Balance as at December 31, 2016	750,000,000	5,534,666	1,383,667	20,755,006	777,673,339

The annexed notes from 1 to 32 form an integral part of these financial statements.

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Chairman



Director



Director

President & Chief Executive

SINDH MICROFINANCE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016	2015
	-----Rupees-----	
Profit after taxation	12,460,518	15,212,821
Other comprehensive income		
- Items that may be reclassified to profit and loss account	-	-
- Items that will not be reclassified to profit and loss account subsequently	-	-
	-	-
Comprehensive income for the year transferred to equity	<u>12,460,518</u>	<u>15,212,821</u>
Components of comprehensive income not reflected in equity:		
- Surplus/ (deficit) on revaluation of assets	-	-
Total comprehensive income for the year	<u><u>12,460,518</u></u>	<u><u>15,212,821</u></u>

The annexed notes from 1 to 32 form an integral part of these financial statements.


Sir



 President & Chief Executive



 Chairman



 Director



 Director

1 STATUS AND NATURE OF BUSINESS

1.1 Sindh Microfinance Bank Limited ('the Bank') was incorporated on March 27, 2015 as a public Company limited by shares under the Companies Ordinance, 1984. The Bank obtained Microfinance banking license from SBP on October 16, 2015, to operate in Sindh Province. Subsequently the Bank has received the certificate of commencement of business from Securities & Exchange Commission of Pakistan (SECP) on November 30, 2015. The Bank's registered office is situated at 39/F, 2nd Floor, Muhammad Ali Cooperative Housing Society, Karachi. The Bank's principal business is to provide microfinance services to the poor and underserved segment of the society as envisaged in the Microfinance Institutions Ordinance, 2001.

The Bank is the wholly owned subsidiary of Sindh Bank Limited. The Bank operates through branches and service centers spread within the province of Sindh (Refer note # 25 and 26)

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of Banking Supervision Department (BSD) Circular No. 11 dated December 30, 2003 issued by the State Bank of Pakistan (SBP).

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the directives issued by SECP and SBP, the requirements of the Microfinance Institution Ordinance, 2001 (the MFI Ordinance), the Companies Ordinance, 1984 (the Companies Ordinance) and the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), The Prudential Regulations issued by State Bank of Pakistan and interpretations issued by the Standards Interpretation Committee of IASB as adopted in Pakistan. In case where provisions of directives issued by the SECP and SBP, the MFI Ordinance and the Companies Ordinance differ with the requirements of these standards, such provisions of SBP directive, the MFI Ordinance and the Companies Ordinance shall prevail.

The SBP vide BSD Circular No. 10, dated 26 August 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Further, the SECP vide its SRO 633 (I)/ 2014, dated 10 July 2014 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement", IAS 40, "Investment Property" and International Financial Reporting Standard (IFRS) 7 "Financial Instruments: Disclosures" for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars / regulations

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention.

These financial statements have been prepared following accrual basis of accounting except for cash flow statement.

4.2 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees which is the Bank's functional and presentation currency.

4.3 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Significant areas requiring the use of management estimates in these financial statements relate to the:

	Note
a) Useful life of depreciable assets	6.3
b) Provision for taxation	6.5
c) Provision against non performing advances	6.2

However, assumptions and significant judgments made by the management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

5 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO APPROVED ACCOUNTING STANDARDS

5.1 Standards, amendments and interpretations to the published standards that are relevant to the bank and adopted in the current year

The Bank has adopted the following new standards, amendments to published standards and interpretations of IFRSs which became effective during the current year.

Standard or Interpretation	Effective Date
IAS 1 - Disclosure Initiative (Amendments to IAS 1 Presentation of Financial Statements)	January 1, 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle	January 1, 2016
IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)	January 1, 2016

Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

Adoption of the above revisions, amendments and interpretations of the standards have no significant effect on the amounts for the year ended December 31, 2015 and 2016.

5.2 Standards, amendments to published standards and interpretations that are effective but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 01, 2016 are considered not to be relevant or to have any significant effect on the Bank's financial reporting and operations and are therefore not presented here.

5.3 Standards, amendments and interpretations to the published standards that are relevant but not yet effective and not early adopted by the Bank

The following new standards, amendments to published standards and interpretations would be effective from the dates mentioned below against the respective standard or interpretation.

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Standard or Interpretation	Effective Date
IAS 7 - Disclosure Initiative (Amendments to IAS 7)	January 1, 2017
IAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	January 1, 2017
IFRS 2 - Classification and Measurement of Share-based Payment Transaction (Amendments to IFRS 2)	January 1, 2018

The Bank is in the process of assessing the impact of these Standards, amendments and interpretations to the published standards on the financial statements of the Bank.

5.4 Standards, amendments and interpretations to the published standards that are not yet notified by the Securities and Exchange Commission of Pakistan (SECP)

Following new standards have been issued by the International Accounting Standards Board (IASB) which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard or Interpretation	IASB effective date (Annual periods beginning)
IFRS 14 - Regulatory Deferral Accounts	January 1, 2016
IFRS 15 - Revenue from Contracts with Customers	January 1, 2018
IFRS 9 - Financial Instruments (2014)	January 1, 2018
IFRS 16 - Leases	January 1, 2019

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted and applied in the preparation of these financial statements are set out below. These policies have been consistently applied all year presented, unless otherwise stated.

6.1 Cash and cash equivalents

Cash and balances are stated at cost. For the purpose of cash flow statement, cash and cash equivalents comprises of cash in hand, balances with State Bank of Pakistan (SBP), National Bank of Pakistan (NBP) and balances held with other banks in current and deposit accounts.

6.2 Advances

Advances are stated net of specific and general provisions which are determined on the basis of the Prudential Regulations for Microfinance Banks issued by SBP. Advances are written off according to the Prudential Regulations or when there is no realistic prospect of recovery. These regulations prescribe a time based criteria for classification of non-performing advances into the following categories:

- a) Other assets especially mentioned (OESM): These are advances in arrears (payments / installments overdue) for 30 days or more but less than 60 days.
- b) Substandard: These are advances in arrears (payments / installments overdue) for 60 days or more but less than 90 days.
- c) Doubtful: These are advances in arrears (payments / installments overdue) for 90 days or more but less than 180 days.
- d) Loss: These are advances in arrears (payments / installments overdue) for 180 days or more.

In addition, a general provision is maintained equivalent to 1% of the net outstanding balance (advances net of specific provisions) for potential loan losses. In addition, general provision is not required in cases where loans have been secured against gold and other cash collaterals with appropriate margin.

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In addition the bank maintains watchlist of all accounts delinquent by 5- 29 days.

Specific and general provisions are charged to income for the year.

In accordance with the Prudential Regulations the bank maintains specific provision for potential loan losses for all non performing loans net of cash and gold collected the following rates:

OAEM	NIL
Substandard	25%
Doubtful	50%
Loss	100%

Non-performing advances are written off one month after the loan is classified as 'Loss' in accordance with the requirements of the Prudential Regulations for Microfinance Banks issued by the State Bank of Pakistan. However, the Bank continues its efforts for recovery of the written off balances.

6.3 Operating fixed assets

Property and equipment

These are stated at cost less accumulated depreciation and any identified impairment losses (if any). Cost of property and equipments consists of purchase price which is equal to the fair value of consideration paid at the time of acquisition or construction of the asset plus directly attributable costs in bringing the asset to their working conditions.

Depreciation is charged on additions from the month in which asset is available for use, using the straight line method to the month of disposal.

Gain or loss on disposal, if any, are recognized in the profit and loss account in the year in which they arise.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account as and when incurred.

Capital work-in-progress

Capital work in progress is stated at cost less accumulated impairment losses, if any. All expenditures connected with specific assets incurred during installation and related advances there against, if any, are carried under this head. These are transferred to specific assets as and when assets become available for use.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month when these assets are available for use, using the straight line method, whereby the cost of the intangible assets are amortized over its estimated useful lives over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

6.4 Impairment of non-financial assets

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account.

6.5 Taxation

Current

The charge of current tax is based on taxable income at the applicable rate of taxation after taking into account available tax credits and rebates. Income for the purpose of computing current taxation is determined under the provisions of tax laws.

Deferred

Deferred tax is accounted for using the balance sheet method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

6.6 Staff retirement benefits

Defined contribution plan

The bank operates a recognized provident fund for its eligible employees. Equal monthly contributions are made, both by the Bank and the employees, to the Fund at the rate of 10% of basic salary.

6.7 Deposits

Deposits are recorded at the proceeds received. Mark up accrued on these deposits, if any, is recognized separately as part of other liabilities, and is charged to profit and loss account over the period.

6.8 Borrowings

Loans and borrowings are initially recorded at proceeds received. In subsequent periods, borrowings are stated at amortized cost using the effective yield method.

6.9 Investments

The investments of the Bank, upon initial recognition, are classified as held-for-trading, held-to-maturity and available-for-sale, as appropriate.

All purchase and sale of investments are recognized using settlement date accounting. Settlement date is the date on which investments are delivered to or by the bank. All investments derecognized when the right to receive economic benefit from investment was expired or has been transferred substantially all risk and rewards of ownership

Held-for-trading

These represent securities which are either acquired for the purpose of generating profit from short term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short term profit making exists. After initial measurement, such investments are carried at fair value and the gain / (loss) arising as a result of revaluation is taken to profit and loss account.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortized cost.

Available-for-sale

These are investments which do not fall under the held-for-trading and held-to maturity categories. After initial measurement, such investments are measured at fair value. The gain / (loss) arising on revaluation is shown in the balance sheet below equity which is taken to the profit and loss account when actually realized upon disposal.

Premium or discount on securities classified as available-for-sale and held-to-maturity is amortized using effective interest method and taken to profit and loss account.

Provision for impairment in the value of equity securities is made after considering objective evidence of impairment. Provision for diminution in the value of debt securities is made as per the requirements of the Prudential Regulations and charged to profit and loss account.

6.10 Statutory Reserve

The Bank is required under Microfinance Institution Ordinance, 2001 and Prudential Regulation "R-4 - Statutory Reserve", to create a reserve fund to which shall be credited an amount equal to at least 20% of its annual profits after taxes till such time the reserve fund equals the paid-up capital of the bank and thereafter, a sum not less than 5% of its annual profit after taxes.

6.11 Depositors' Protection Fund

The Bank is required under Microfinance Institutions Ordinance, 2001 to contribute 5% of its annual after tax profit and profit earned on investments of the fund shall be credited to the Depositors' Protection Fund for the purpose of providing security or guarantee to persons depositing money in the Bank.

6.12 Revenue recognition

Revenue is recognized when it is probable that future economic benefits will flow to the entity and amount can be reliably measured.

Mark-up on advances

Mark up/ return/ interest on performing advances is recognized on accrual basis using effective interest method.

Balances with other banks

Income on balances with National bank of Pakistan, Sindh Bank Limited and other banks is recognized in profit and loss account on accrual basis using the effective interest rate.

Investment income

Return on investment is recognized on accrual basis using effective interest method.

6.13 Dividend distribution

Dividends and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

Dividend made subsequent to the date of balance sheet are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standards (IAS) 10, 'Events after the Balance Sheet Date' in the period in which they are approved.

6.14 Financial instruments

Financial assets and liabilities are recognized at the trade date, i.e. the date at which the Bank becomes party to a contractual provision of the instrument. Financial assets and liabilities are derecognized when they are distinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and liabilities are taken to income directly.

6.15 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lending to financial institutions, investments, advances, other assets, borrowings, deposits and other liabilities. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

6.16 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

6.17 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

6.18 Earnings per shares

The Bank presents earning per share (EPS) for its ordinary shares which is calculated by dividing the profits or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all diluted potential ordinary shares (if any).

6.19 General

Figures have been rounded-off to nearest rupee, unless stated otherwise.

Corresponding figures have been rearranged / reclassified for the purpose of better presentation / comparison. However, no material rearrangement / reclassification have been made in these financial statements.

Where there are no amounts to be disclosed in the captions as prescribed by BSP circular No.11 dated December 30, 2003 issued by the SBP in respect of form of the financial statements for microfinance banks, these captions have not been reproduced in these financial statements.

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7	CASH AND BALANCES WITH SBP AND NBP	Note	2016	2015
			-----Rupees-----	
	Cash in hand		185,040	10,022
	Balances with State Bank of Pakistan in local currency		331,765	-
	Balances with National Bank of Pakistan in local currency		1,432,795	-
			1,764,560	-
			1,949,600	10,022

8 BALANCES WITH OTHER BANKS

In Pakistan

- Local currency current account
- Local currency deposit account
- Term deposit receipts

8.1
8.2

-	-
180,005,055	155,843,727
400,000,000	200,000,000
580,005,055	355,843,727

8.1 It represents the accounts maintained with the Sindh Bank Limited (the Holding Company) in daily product saving account carrying mark-up at rate ranging from 6.15% to 6.40% (2015: 6.4% to 7.9% per annum).

8.2 This includes Term deposit receipts (TDRs) placed with NRSP Microfinance Bank Limited having maturity of 1 year from the date of investment carrying interest at the rate of 11.25% and Khushhali Bank limited having maturity of 6 months from the date of investment carrying interest at the rate of 7%-7.3% (2015: 7.2% per annum). These TDRs have been reclassified from Lending to Financial Institutions to Balances with other banks.

9	LENDING TO FINANCIAL INSTITUTIONS	Note	2016	2015
			-----Rupees-----	
	Letter of placement		-	400,000,000
	Certificate of deposit	9.1	100,000,000	-
			100,000,000	400,000,000

9.1 This includes Certificate of deposit with Orix leasing Company Limited having a maturity of 1 year and carrying markup of 6.75% (2015: Nil) per annum.

10 ADVANCES - NET OF PROVISIONS

Loan Type	Note	2016		2015	
		Number of loans outstanding	Amount outstanding (Rupees)	Number of loans outstanding	Amount outstanding (Rupees)
Micro Credit					
-Unsecured	10.1	3,837	69,350,577	-	-
-Secured		-	-	-	-
		3,837	69,350,577	-	-
Less: Provision held					
- General		-	(693,506)	-	-
- Specific		-	-	-	-
		-	(693,506)	-	-
		3,837	68,657,071	-	-

10.1 These are secured by personal guarantees carrying interest rate of 38% (2015: 0%) per annum.

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2016 2015
 -----Rupees-----

II OPERATING FIXED ASSETS

Note

Property and equipment	11.1	6,002,342	2,524,053
Intangible assets	11.2	1,397,266	-
		<u>7,399,608</u>	<u>2,524,053</u>

III PROPERTY AND EQUIPMENT

	COST		DEPRECIATION		Net book value at Dec 31, 2016	Rate of Depreciation
	As at Jan 1, 2016	As at Dec 31, 2016	As at Jan 1, 2016	Charged for the period		
2016						
Office equipment	57,190	3,763,545	940	232,656	233,596	20%
Office improvement	121,101	316,750	400	8,810	9,210	5%
Furniture and fixture	183,455	164,000	1,646	34,051	35,697	10%
Vehicles	2,457,500	-	292,207	490,489	782,696	20%
Total 2016	2,819,246	4,244,295	295,193	766,006	1,061,199	6,002,342

Rupees-----

	COST		DEPRECIATION		Net book value at Dec 31, 2015	Rate of Depreciation
	As at Mar 27, 2015	As at Dec 31, 2015	As at Mar 27, 2015	Charged for the period		
2015						
Office equipment	-	57,190	-	940	940	20%
Office improvement	-	121,101	-	400	400	5%
Furniture and fixture	-	183,455	-	1,646	1,646	10%
Vehicles	-	2,457,500	-	292,207	292,207	20%
Total 2015	-	2,819,246	-	295,193	295,193	2,524,053

Rupees-----

III.2 INTANGIBLE ASSETS

	COST		AMORTIZATION		Net book value at Dec 31, 2016	Rate of amortization
	As at Jan 1, 2016	As at Dec 31, 2016	As at Jan 1, 2016	Amortization		
Software	-	1,710,938	-	313,672	313,672	20%
Total 2016	-	1,710,938	-	313,672	313,672	1,397,266

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	2016	2015			
	-----Rupees-----				
12 OTHER ASSETS					
Income/ mark-up accrued on advances	1,176,814	-			
Profit receivable on investments	8,671,035	966,574			
Advances, prepayments and deposits	8,310,714	7,215,575			
Advance tax - net of provision	4,522,244	-			
	<u>22,680,807</u>	<u>8,182,149</u>			
13 DEPOSITS					
- Current	1,100,100	-			
- Savings	38,526	-			
	<u>1,138,626</u>	<u>-</u>			
14 OTHER LIABILITIES					
Other payable	714,571	241,264			
EOBI payable	70,979	-			
Withholding tax payable	288,083	147,556			
Provision for taxation-net	-	1,734,852			
Employees provident fund payable	251,636	220,943			
Audit fee payable	147,000	85,000			
	<u>1,472,269</u>	<u>2,429,615</u>			
15 DEFERED TAX LIABILITIES					
Opening Balance	(1,082,485)	-			
Charged during the year	1,490,392	(1,082,485)			
Closing balance	<u>407,907</u>	<u>(1,082,485)</u>			
15.1 Movement in temporary differences during the year					
Opening	(1,082,485)	-			
Deferred tax liabilities arising in respect of:					
Recognized in profit and loss account					
Accelerated tax depreciation allowance	1,490,392	(1,082,485)			
	<u>407,907</u>	<u>(1,082,485)</u>			
16 SHARE CAPITAL					
Authorized share capital					
	2016	2015	Ordinary	2016	2015
	-----Number of Shares-----		shares of Rs.	-----Rupees-----	
	100,000,000	100,000,000	10 each	1,000,000,000	1,000,000,000
Issued, subscribed and paid-up share capital					
	2016	2015	Ordinary	2016	2015
	-----Number of Shares-----		shares of Rs.	-----Rupees-----	
	75,000,000	75,000,000	10 each fully paid in cash	750,000,000	750,000,000

Sindh Bank Limited is the parent company holding 99.99% shares of Sindh Microfinance Bank Limited.

17 MEMORANDUM / OFF BALANCE SHEET ITEMS

There are no contingencies and undisbursed loans as at year end. (2015: Nil)

SINDH MICROFINANCE BANK LIMITED
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18 MARK-UP / RETURN / INTEREST EARNED	Note	2016	2015
		-----Rupees-----	
On:			
- Advances		4,821,033	-
- Deposits on daily savings account		11,557,578	18,444,519
- Certificate of investments		-	916,232
- Certificate of deposits		5,271,282	-
- Term deposit receipts		21,475,589	18,253,562
- Letter of placements		17,683,679	887,671
		<u>60,809,161</u>	<u>38,501,984</u>
19 ADMINISTRATIVE EXPENSES			
Salaries, wages & other allowances		26,956,865	8,415,144
Staff welfare		268,128	72,711
Rent and taxes		3,553,171	1,035,096
Directors' fee		165,000	120,000
Printing and stationery		272,703	52,594
Communication		512,816	9,504
Office supplies		306,279	-
Travelling and conveyance		517,712	252,710
Insurance		132,887	28,665
Training and development		43,324	-
Utilities		887,783	46,706
Branch setup cost		589,975	-
Advertisement		205,533	253,524
Depreciation	11.1	766,006	295,193
Amortization	11.2	313,672	
Auditor's remuneration	19.1	283,400	110,000
Bank charges		57,550	2,355
Regulatory fee		2,364,145	4,025,635
Office cleaning & maintenance		706,748	259,157
Legal & professional fee		48,878	118,650
Fee and subscription		407,753	-
Others		30,008	-
		<u>39,390,336</u>	<u>15,097,644</u>
19.1 AUDITORS' REMUNERATION			
Half yearly review fee		40,300	25,000
Audit fee		90,000	75,000
Certification fee		96,100	-
PSCG- report fee		35,000	-
Out of pocket		22,000	10,000
		<u>283,400</u>	<u>110,000</u>

19.2 Conveyance allowance has been re-classified to Travel and transportation and Entertainment has been reclassified to Staff welfare.

SINDH MICROFINANCE BANK LIMITED
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	2016	2015
	-----Rupees-----	
20 TAXATION		
- Current	6,900,501	9,274,004
- Prior	(48,946)	-
- Deferred	1,429,246	(1,082,485)
	<u>8,280,801</u>	<u>8,191,519</u>

20.1 Relationship between tax expense and accounting profit

Profit before tax	20,741,319	23,404,340
Tax at the applicable tax rate of 35%	7,259,462	8,191,519
Effects of:		
- Taxable temporary difference - operating fixed assets	407,907	(44,693)
- Deductible temporary difference - precommencement expenditure	(766,868)	1,127,178
Tax expense	<u>6,900,501</u>	<u>9,274,004</u>

21 BASIC AND DILUTED EARNING PER SHARE

21.1 Profit for the year	A	12,460,518	15,212,821
		(Number)	(Number)
Weighted average ordinary shares	B	75,000,000	75,000,000
		(Rupees)	(Rupees)
Earning per share	A/B	0.17	0.20

There is no dilution effect on the basic earnings per share of the Bank as on December 31, 2016 (2015: Nil)

22 NUMBER OF EMPLOYEES

	-----2016-----		
	Credit /Sales Staff	Banking Staff	Total
Permanent	76	18	94
Contractual	-	-	-
	<u>76</u>	<u>18</u>	<u>94</u>
	-----2015-----		
	Credit /Sales Staff	Banking Staff	Total
Contractual	-	-	-
	-	8	8

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23 CASH AND CASH EQUIVALENTS	Note	2016	2015
		-----Rupees-----	
Cash in hand	7	185,040	10,022
Cash and balances with SBP and NBP	7	1,764,560	-
Balances with other banks	8	580,005,055	355,843,727
		<u>581,954,655</u>	<u>355,853,749</u>

24 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties comprise of Sindh Bank Limited (Holding company) it's subsidiary, associates, directors and key management personnel. Detail of transactions with related parties other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	Note	2016	2015
-----Rupees-----			
Balances with Sindh Bank Limited - Holding company			
- deposit account		<u>180,005,055</u>	<u>155,843,727</u>
Balances with Sindh Insurance Limited			
Prepaid insurance	12	<u>151,591</u>	<u>20,485</u>
Transactions with Sindh Bank Limited			
Mark-up on deposits accounts	18	<u>11,557,578</u>	<u>18,444,519</u>
Mark-up on term deposit receipts		<u>3,242,671</u>	<u>18,174,658</u>
Director			
Directors' fee	19	<u>165,000</u>	<u>120,000</u>
Transactions with Sindh Insurance Limited			
Insurance expense	19	<u>132,887</u>	<u>28,665</u>

25 NUMBER OF BRANCHES	2016	2015
	-----Numbers-----	
at beginning of the period	-	-
Add: Opened during the period	5	-
Less: Closed during the period	-	-
Total Branches at the end of the year.	<u>5</u>	<u>-</u>

26 NUMBER OF SERVICE CENTERS	2016	2015
	-----Numbers-----	
at beginning of the period	-	-
Add: Opened during the period	19	-
Less: Closed during the period	-	-
Total Service centers at the end of the year	<u>19</u>	<u>-</u>

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27 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	December 31, 2016			December 31, 2015		
	Rupees			Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
-Managerial remuneration	4,899,999	-	3,448,486	3,322,177	-	703,248
-House rent allowance	2,204,999	-	1,551,813	1,494,980	-	316,462
-Medical allowance	489,999	-	344,849	332,218	-	70,325
-Utilities allowance	490,008	-	344,849	332,218	-	70,325
-Contribution to PF	490,000	-	298,186	-	-	-
-Others	156,000	-	-	666,666	-	29,270
-Directors' fee	-	165,000	-	-	120,000	-
	8,731,005	165,000	5,988,183	6,148,259	120,000	1,189,630
Number of persons at year end	1	3	4	1	2	4

- 27.1 Executive means employees, other than the chief executive and directors, whose basic salary exceed Rs. 500,000 in a financial year.
- 27.2 The President / Chief Executive Officer is entitled to use bank maintained car and perquisites in accordance with the terms of his appointment.

28 FINANCIAL RISK MANAGEMENT

28.1 Interest / mark-up rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market interest rates. The bank's interest rate exposure is low due to the short-term nature of the majority of business transactions.

		2016							
Effective yield / interest rate %	Interest bearing / exposed to yield / interest risk	Interest bearing / exposed to yield / interest risk				Non interest bearing / not exposed to yield / interest risk			
		Up to one month	Over one month up to six months	Over six months up to one year	Sub total	Up to one month	Over one month up to six months	Over six months up to one year	Total
6.15 - 11.25	Cash and balances with SBP and NBP	-	-	-	-	1,949,600	-	-	1,949,600
6.75	Balances with other banks	180,005,055	400,000,000	-	580,005,055	-	-	-	580,005,055
	Lending to financial institutions	-	100,000,000	-	100,000,000	-	-	-	100,000,000
	Other assets - advances	-	-	-	-	9,847,849	8,310,714	18,158,563	36,316,126
	Off balance sheet	180,005,055	300,000,000	-	480,005,055	1,949,600	9,847,849	8,310,714	20,108,163
	Total	360,010,110	700,000,000	-	1,060,010,110	1,949,600	9,847,849	8,310,714	20,108,163

		2015							
Effective yield / interest rate %	Interest bearing / exposed to yield / interest risk	Interest bearing / exposed to yield / interest risk				Non interest bearing / not exposed to yield / interest risk			
		Up to one month	Over one month up to six months	Over six months up to one year	Sub total	Up to one month	Over one month up to six months	Over six months up to one year	Total
6.4 - 11.25	Cash and balances with SBP and NBP	-	-	-	-	10,022	-	-	10,022
7.2	Balances with other banks	155,843,727	400,000,000	-	555,843,727	-	-	-	555,843,727
	Lending to financial institutions	-	400,000,000	-	400,000,000	-	-	-	400,000,000
	Other assets - advances	-	-	-	-	966,574	7,215,575	8,182,149	16,364,298
	Off balance sheet	155,843,727	400,000,000	-	555,843,727	10,022	966,574	7,215,575	17,292,898
	Total	311,687,454	800,000,000	-	1,111,687,454	20,044	966,574	7,215,575	17,292,898

		2015							
Effective yield / interest rate %	Interest bearing / exposed to yield / interest risk	Interest bearing / exposed to yield / interest risk				Non interest bearing / not exposed to yield / interest risk			
		Up to one month	Over one month up to six months	Over six months up to one year	Sub total	Up to one month	Over one month up to six months	Over six months up to one year	Total
	Cash and balances with SBP and NBP	-	-	-	-	2,429,615	-	-	2,429,615
	Balances with other banks	155,843,727	400,000,000	-	555,843,727	-	-	-	555,843,727
	Lending to financial institutions	-	400,000,000	-	400,000,000	-	-	-	400,000,000
	Other assets - advances	-	-	-	-	966,574	7,215,575	8,182,149	16,364,298
	Off balance sheet	155,843,727	400,000,000	-	555,843,727	2,429,615	966,574	7,215,575	16,731,807
	Total	311,687,454	800,000,000	-	1,111,687,454	5,815,704	966,574	7,215,575	16,731,807

SINDH MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

28.2 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The bank's credit risk is primarily attributable to its advance. The bank has an effective loan disbursement and recovery monitoring system which allow it to evaluate borrowers' credit worthiness and identify potential problem loans. General Provision for loan losses is maintained as required by the prudential Regulation..

28.3 Liquidity risk

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitment when they fall due or take the advantage of investment opportunities when they rise. The management ensure that funds are available at all times to meet the funding requirements of the Bank.

28.4 Fair Value Measurement

Assets and liabilities measured at fair value in the balance sheet are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2016:

December 31, 2016	Note	Level 1	Level 2	Level 3	Book value	Total Book value
-----Rupees-----						
<u>Financial Assets</u>						
Term deposit certificates	8	-	-	400,000,000	-	400,000,000
Certificate of deposits	9			100,000,000	-	100,000,000
<u>Non Financial Assets</u>						
Operating fixed assets	11	-	-	-	7,399,608	7,399,608
Other assets	12	-	-		22,680,807	22,680,807
		-	-	500,000,000	30,080,415	530,080,415

The Company performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations.

Financial instrument in level 1

Currently, no financial instruments are classified in level 1.

Financial instrument in level 2

Currently, no financial instruments are classified in level 2.

Financial instrument in level 3

Financial instruments included in level 3 comprise of Term deposit certificates and Letters of placements.

MATURITIES OF ASSETS AND LIABILITIES

	2016				
	Total	Upto one month	Over one year upto six months	Oversix months upto one year	Over one year
-----Rupees-----					
Market rate assets					
Advances	68,657,071	-	-	-	68,657,071
Investments	-	-	-	-	-
Other earning assets	680,005,055	580,005,055	100,000,000	-	-
Total market rate assets	748,662,126	580,005,055	100,000,000	-	68,657,071
Other non-earning assets	32,030,015	1,949,600	-	-	30,080,415
Total assets	780,692,141	581,954,655	100,000,000	-	98,737,486
Market rate liabilities					
Time deposits of Rs.100,000 and above	-	-	-	-	-
Time deposits below Rs.100,000	1,138,626	-	-	1,138,626	-
Other cost bearing liabilities	-	-	-	-	-
Total market rate liabilities	1,138,626	-	-	1,138,626	-
Other non- cost bearing liabilities	1,472,269	1,472,269	-	-	-
Total liabilities	2,610,895	1,472,269	-	1,138,626	-
	2015				
	Total	Upto one month	Over one year upto six months	Oversix months upto one year	Over one year
-----Rupees-----					
Market rate assets					
Advances	-	-	-	-	-
Investments	-	-	-	-	-
Other earning assets	755,843,727	155,843,727	600,000,000	-	-
Total market rate assets	755,843,727	155,843,727	600,000,000	-	-
Other non-earning assets	8,182,149	-	966,574	-	7,215,575
Total assets	764,025,876	155,843,727	600,966,574	-	7,215,575
Market rate liabilities					
Time deposits of Rs.100,000 and above	-	-	-	-	-
Time deposits below Rs.100,000	-	-	-	-	-
Other cost bearing liabilities	-	-	-	-	-
Total market rate liabilities	-	-	-	-	-
Other non- cost bearing liabilities	2,429,615	2,429,615	-	-	-
Total liabilities	2,429,615	2,429,615	-	-	-

30 CAPITAL RISK MANAGEMENT

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns and benefits to shareholders by pricing products and services commensurately with the level of risk and comply with capital requirement set by SBP. It is the policy of the Bank to maintain a strong capital base at reasonable post so as to maintain investors, creditor and market confidence sustained future development of the business and achieve low overall cost of the capital with appropriate mix of cost of capital. The impact of the level of capital on shareholders return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with higher gearing and the advantages and security afforded by a sound capital position.

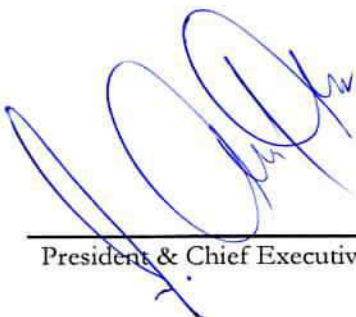
31 SUBSEQUENT EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date and date of authorization.

32 DATE OF AUTHORIZATION

These financial statements were authorized for issue on Feb 21, 2017 by the Board of Directors of the Bank.

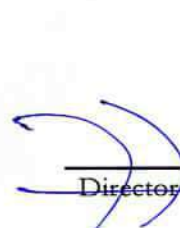
CSM




President & Chief Executive



Chairman



Director



Director

SCHEDULE I [See paragraph 2(1)]

**Statement of Compliance with the
Public Sector Companies (Corporate Governance) Rules, 2013**

Name of company : Sindh Microfinance Bank Ltd.

Name of the line ministry:

For the year ended : December 31, 2016

I. This statement is being presented to comply with the Public Sector Companies (Corporate Governance) Rules, 2013 (hereinafter called "the Rules") issued for the purpose of establishing a framework of good governance, whereby a public sector company is managed in compliance with the best practices of public sector governance.

II. The company has complied with the provisions of the Rules in the following manner:

S.No.	Provision of the Rules	Rule No.	Tick the relevant box																					
			Y	N																				
1	The independent directors meet the criteria of independence, as defined under the Rules.	2(d)	✓	-																				
2	The Board has the requisite percentage of independent directors. At present the board includes: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Category</th> <th>Names</th> <th>Date of appointment</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Independent Directors</td> <td>Mr. Liaquat Ali</td> <td>March 30,2016</td> </tr> <tr> <td>Mr.Farooq Ahmed</td> <td>March 30,2016</td> </tr> <tr> <td>Ms. Naila Masood</td> <td>March 30,2016</td> </tr> <tr> <td>Executive Directors</td> <td>Mr. Shoaib Arif</td> <td>March 30,2016</td> </tr> <tr> <td rowspan="3">Non-Executive Directors</td> <td>Mr. Shams uddin Khan</td> <td>March 30,2016</td> </tr> <tr> <td>Ms. Masooma Hussain</td> <td>March 30,2016</td> </tr> <tr> <td>Mr. Fazal Illahi Memon</td> <td>March 30,2016</td> </tr> </tbody> </table>	Category	Names	Date of appointment	Independent Directors	Mr. Liaquat Ali	March 30,2016	Mr.Farooq Ahmed	March 30,2016	Ms. Naila Masood	March 30,2016	Executive Directors	Mr. Shoaib Arif	March 30,2016	Non-Executive Directors	Mr. Shams uddin Khan	March 30,2016	Ms. Masooma Hussain	March 30,2016	Mr. Fazal Illahi Memon	March 30,2016	3(2)	✓	-
Category	Names	Date of appointment																						
Independent Directors	Mr. Liaquat Ali	March 30,2016																						
	Mr.Farooq Ahmed	March 30,2016																						
	Ms. Naila Masood	March 30,2016																						
Executive Directors	Mr. Shoaib Arif	March 30,2016																						
Non-Executive Directors	Mr. Shams uddin Khan	March 30,2016																						
	Ms. Masooma Hussain	March 30,2016																						
	Mr. Fazal Illahi Memon	March 30,2016																						
3	A casual vacancy occurring on the board was filled up by the directors within ninety days.	3(4)	✓	-																				
4	The directors have confirmed that none of them is serving as a director on more than five public sector companies and listed companies simultaneously, except their subsidiaries.	3(5)	✓	-																				
5	The appointing authorities have applied the fit and proper criteria given in the Annexure in making nominations of the persons for election as board members under the provisions of the Ordinance.	3(7)	✓	-																				
6	The chairman of the board is working separately from the chief executive of the Company.	4(1)	✓	-																				
7	The chairman has been elected from amongst the independent directors.	4(4)	✓*	-																				

*Exemption has been duly granted by SECP vide letter No. CLD/CCD/PSC/37/2015/8415, dated May 30, 2016.

8	The Board has evaluated the candidates for the position of the chief executive on the basis of the fit and proper criteria as well as the guidelines specified by the Commission	5(2)	✓	-
9	(a) The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures, including posting the same on the company's website. (Address of website to be indicated www.sindhmfcb.com) (b) The Board has set in place adequate systems and controls for the identification and redressal of grievances arising from Unethical practices.	5(4)	✓	-
10	The Board has established a system of sound internal control, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty; and relationship with the stakeholders, in the manner prescribed in the Rules	5(5)	✓	-
11	The Board has developed and enforced an appropriate conflict of interest policy to lay down circumstances or considerations when a person may be deemed to have actual or potential conflict of interests, and the procedure for disclosing such interest.	5(5)(b)(ii)	✓	-
12	The Board has developed and implemented a policy on anti-corruption to minimize actual or perceived corruption in the company.	5(5)(b)(vi)	✓	-
13	(a) The Board has ensured equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service. (b) A Committee has been formed to investigating deviations from the company's code of conduct.	5(5)(c)(ii)	✓	-
14	The Board has ensured compliance with the law as well as the company's internal rules and procedures relating to public procurement, tender regulations, and purchasing and technical standards, when dealing with suppliers of goods and services, in accordance with the PPRA Rules.	5(5)(c)(iii)	✓	-
15	The board has developed a vision or mission statement, corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.	5(6)	✓	-
16	The board has quantified the outlay of any action in respect of any service delivered or goods sold by the Company as a public service obligation, and have submitted its request for appropriate compensation to the Government for consideration.	5(8)	✓	-
17	(a) The board has met at least four times during the year. (b) Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. (c) The minutes of the meetings were appropriately recorded and circulated.	6(1) 6(2) 6(3)	✓	-

18	The board has carried out performance evaluation of its members, including the chairman and the chief executive, on the basis of a process, based on specified criteria, developed by it. The board has also monitored and assessed the performance of senior management on annual/half-yearly/quarterly basis *. Strike out whichever is not applicable	8	-	✓																		
19	The board has reviewed and approved the related party transactions placed before it after recommendations of the audit committee. A party wise record of transactions entered into with the related parties during the year has been maintained.	9	✓	-																		
20	The board has approved the profit and loss account for, and balance sheet as at the end of, the first, second and third quarter of the year as well as the financial year end, and has placed the annual financial statements on the company's website. Monthly accounts were also prepared and circulated amongst the board members.	10	✓	-																		
21	All the board members underwent an orientation course arranged by the company to apprise them of the material developments and information as specified in the Rules.	11	-	✓																		
22	(a) The board has formed the requisite committees, as specified in the Rules. (b) The committees were provided with written term of reference defining their duties, authority and composition. (c) The minutes of the meetings of the committees were circulated to all the board members. (d) The committees were chaired by the following non-executive directors:	12	✓	-																		
	<table border="1"> <thead> <tr> <th>Committee</th> <th>Number of members</th> <th>Name of Chair</th> </tr> </thead> <tbody> <tr> <td>Audit Committee</td> <td>03</td> <td>Mr. Liaquat Ali</td> </tr> <tr> <td>Risk Management Committee</td> <td>03</td> <td>Ms. Naila masood</td> </tr> <tr> <td>Human Resources Committee</td> <td>03</td> <td>Ms. Naila masood</td> </tr> <tr> <td>Procurement Committee</td> <td>03</td> <td>Mr. Liaquat Ali</td> </tr> <tr> <td>Nomination Committee</td> <td>03</td> <td>Mr. Farooq Ahmed</td> </tr> </tbody> </table>	Committee	Number of members	Name of Chair	Audit Committee	03	Mr. Liaquat Ali	Risk Management Committee	03	Ms. Naila masood	Human Resources Committee	03	Ms. Naila masood	Procurement Committee	03	Mr. Liaquat Ali	Nomination Committee	03	Mr. Farooq Ahmed			
Committee	Number of members	Name of Chair																				
Audit Committee	03	Mr. Liaquat Ali																				
Risk Management Committee	03	Ms. Naila masood																				
Human Resources Committee	03	Ms. Naila masood																				
Procurement Committee	03	Mr. Liaquat Ali																				
Nomination Committee	03	Mr. Farooq Ahmed																				
23	The board has approved appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor, with their remuneration and terms and conditions of employment, and as per their prescribed qualifications.	13/14	✓	-																		
24	The company has adopted International Financial Reporting Standards notified by the Commission under clause (i) of subsection (3) of section 234 of the Ordinance.	16	✓	-																		
25	The directors' report for this year has been prepared in compliance with the requirements of the Ordinance and the Rules and fully describes the salient matters required to be disclosed.	17	✓	-																		
26	The directors, CEO and executives do not hold any interest in the shares	18	✓	-																		

	of the company other than that disclosed in the pattern of shareholding.															
27	A formal and transparent procedure for fixing the remuneration packages of individual directors has been set in place. The annual report of the company contains criteria and details of remuneration of each director	19	✓	-												
28	The financial statements of the company were duly endorsed by the chief executive and chief financial officer, before approval of the board.	20	✓	-												
29	The board has formed an audit committee, with defined and written terms of reference, and having the following members: <table border="1" data-bbox="133 491 996 643"> <thead> <tr> <th>Number of members</th> <th>Category</th> <th>Professional Background</th> </tr> </thead> <tbody> <tr> <td>Mr. Liaquat Ali</td> <td>Chairman</td> <td>Chartered Accountant</td> </tr> <tr> <td>Mr. Farooq Ahmed</td> <td>Member</td> <td>IT Professional</td> </tr> <tr> <td>Mr. Fazal illahi Memon</td> <td>Member</td> <td>Banker</td> </tr> </tbody> </table> The chief executive and chairman of the Board are not members of the audit committee.	Number of members	Category	Professional Background	Mr. Liaquat Ali	Chairman	Chartered Accountant	Mr. Farooq Ahmed	Member	IT Professional	Mr. Fazal illahi Memon	Member	Banker	21	✓	-
Number of members	Category	Professional Background														
Mr. Liaquat Ali	Chairman	Chartered Accountant														
Mr. Farooq Ahmed	Member	IT Professional														
Mr. Fazal illahi Memon	Member	Banker														
30	The board has set up an effective internal audit function, which has an audit charter, duly approved by the audit committee, and which worked in accordance with the applicable standards.	22	✓	-												
31	The company has appointed its external auditors in line with the requirements envisaged under the Rules.	23	✓	-												
32	The external auditors of the company have confirmed that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as applicable in Pakistan.	23(4)	✓	-												
33	The external auditors have not been appointed to provide non audit services and the auditors have confirmed that they have observed applicable guidelines issued by IFAC in this regard.	23(5)	✓	-												
34	The company has complied with all the corporate and financial reporting requirements of the Rules.		✓	-												


 Shoaib Arif
 Chief Executive Officer


 Liaquat Ali
 Independent Director